

Secrets for Managing Materials Budget Allocations: A Brief Guide for Collection Managers

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Abstract

Much of the collection development literature focuses on selection and management of collection content, but little focuses on the art of managing individual funds within the context of an institution's library materials budget. Taking into account the differences in the monographic book trade world-wide and the challenges of managing serials and standing order budgets, the authors will unveil the relationship between encumbrances and expenditures. Looking at some specific collection areas, the authors reveal the secrets of order timing and management that allow collection managers to meet expenditure targets without overspending their allocations. Managing the on-going commitments of subscriptions and the sporadic expenditures for standing orders differs from one-time monograph purchases. The authors address the various strategies for managing all order categories. This article addresses both concepts and processes for managing individual collection funds whether they are monograph, serial or series.

Keywords

acquisitions, collection management, fund management, encumbrances, library budgets, monograph, serial, series

Introduction

Collection managers often wonder how to spend a fund allocation completely by the end of the library's fiscal year. Not wanting to overspend, many collection managers tend to take a conservative approach by ordering fewer books and end up under spending their allocations. The authors have found little literature that offers guidance in this most important aspect of a collection manager's work. Much of the collection development literature focuses on budgets, allocation formulas, and managing collection content, i.e., selecting, ordering and weeding individual titles.¹ However, there is a dearth of literature on the management of individual collection fund lines within the context of an institution's library materials budget. Acquisitions literature focuses on the mechanics of encumbering and paying invoices and required accounting procedures.² Collection managers often believe once an order is placed, the process is out of their control. Kay Granskog acknowledges that "library materials expenditures have less predictable patterns" than other areas of a library budget due to "delays in publication, erratic purchasing and publishing patterns" and gives some advice to collection managers about taking these matters into consideration when reviewing fund management reports.³ The authors propose that collection managers control the performance of their funds by comparing order and encumbrance levels by country or region of publication. The following discussion will assist in determining the appropriate balance of orders to expenditures necessary to spend a yearly fund allocation.

Because firm orders from other countries cause the greatest uncertainty in balancing budgets, firm orders for material from around the world are the focus of this article. Receipt of these monographs is unpredictable, yet this is the segment of materials acquisition most directly controlled by a collection manager. What time of the year an order is placed, the number of

orders placed at a particular time, the average number of days it takes to receive an ordered book from the country of publication, the likely percentage of orders whose publication is withdrawn or delayed, and how often open orders are claimed or cancelled, are all factors complicating the management of these firm order funds. An understanding of the variations in the number of orders required to encumber an allocation at a level sufficient to expend a fund fully is crucial to the management of a monograph fund allocated to foreign acquisitions.

General Discussion

Managing Funds within the Current Generation of Integrated Library Systems (ILS)

Most library integrated library systems (ILS) are the first source of fund management information for collection managers, since order and related payment data can be extracted from the current generation of ILS. Most systems provide information on vendor performance such as the average cost of items paid for on specific funds. Some include information on the average number of days it takes to receive an order from a vendor. Most large vendors also can provide this information reliably. Vendor performance (order turn-around time) for specific geographic regions will influence how many orders a selector places and when in the fiscal year orders should be placed. Some libraries encourage selectors to order consistently throughout the year so that some receipts arrive in the early part of the fiscal year. Other libraries limit the time frame of ordering in an attempt to receive all items ordered in the same fiscal year. Guidelines for selectors must take individual library fiscal requirements into account. Some libraries allow fund balances from one year to be “accrued” and spent in a following year. Other institutions require that an item be ordered and paid for in the same fiscal year. Many academic libraries enforce a “spend it or lose it” policy, but allow orders to remain open beyond one fiscal year.

The case studies in this article assume that ordering can take place throughout the fiscal year and accept the notion that open orders will “rollover” into the next fiscal year.

General Kinds of Funds and Approaches

Much of the library materials budget is committed at the beginning of the fiscal year for serials and remains beyond the control of an individual collection manager outside of the yearly cancellation period prior to the annual fall subscription renewal process. Standing orders are not published on pre-determined schedules, so annual expenditures are difficult to predict.

Monograph allocations usually are made only after yearly price increase projections are taken into account and serials funds are allocated. Budget managers often base monograph allocations on the previous year’s expenditures. If a fund manager does not expend the previous year’s allocation, a reduced allocation may be the result. Once an allocation is made for a fiscal year, the fund is under the collection manager’s control. Understanding the differences among serials, standing order and monograph budgets and funds is the key to managing them.

Serials

Serials budgets differ from monograph budgets in that they reflect the cost of ongoing commitments with expenditures occurring prior to receipt of the actual material. Although not a pervasive practice, some libraries encumber individual subscription orders so that the actual cost of a subscription in the previous year is the encumbrance in the following fiscal year. Since commitments are in place early in a fiscal cycle for material due in the following calendar year, there is little flexibility in serials budgets once the fiscal year begins. Cancellation projects are best developed at least six months prior to the start of the fiscal year (or the preceding calendar year). Serials budgets often need the oversight and analysis of high-level collection, acquisitions

and accounting managers who provide a framework for individual decisions. Serials budget management grows more complex and more restrictive each year as libraries expand the number of electronic journal packages they purchase that have restrictions on the number of print subscriptions that can be cancelled.

Monographic Series, Standing Orders and Blanket Orders

Monographic series and multi-volume sets published over several, or sometimes many, years are the least predictable expenditures. Most libraries create separate standing order funds for this material and rely on year-to-year comparisons of fund activity to inform the allocation for the following fiscal year. Some libraries fund these materials with monograph funds; some with serial funds. Either a specific order category or fund type allows collection managers to see what level of expense activity these orders produce each year.

Monographs (Firm and Approval Orders)

Monograph allocations are the most flexible area of the library materials budget. Domestic approval plan vendors provide excellent fund management information and can provide projections for likely expenditures for specific periods. If expenditures are too high toward the end of a fiscal year, shipments can be stopped or held until new monies are available. Profiles can be matched to budgets as well as curricular and collection priorities.

Given the large number of firm orders that must be placed to expend an allocation (at least in medium to large academic libraries) and the unpredictability of receipt of orders from some geographic regions, a collection manager needs to have a number of years of experience and sufficient management information to spend an allocation effectively.

How Collection Managers Can Manage Their Monograph Funds

Experienced collection managers know how the publication process in specific areas of the world works and how long it generally takes to receive material from that region. They know how many orders they need to place at what total cost in a given year to expend fully their fund allocation. They intentionally over encumber their funds at a specific level, knowing that a certain percentage of orders will never arrive in the library. They cancel overdue orders to free up dollar commitments for other selections. Of course, the turn-around time for domestic publications will be shorter. An additional consideration is the number of orders placed for titles in pre-publication. The likelihood of these orders arriving within a specified time should be assessed on a percentage or historical basis. The size of a selector's budget also has an affect on how a selector times the placement of orders during the fiscal year. Savvy collection managers always ask themselves: "What level of over encumbrance do I need to have at specific times of the year to expend my allocation?"

Understandably, collections and acquisitions managers stress the importance of placing orders on a consistent timetable. Some libraries set calendars for reaching specific encumbrance targets. These targets are a very good start, for if orders are not placed, a receipt and subsequent payment is impossible. But this is just a first step. The next is to determine for the specific fund allocation, how many titles and at what cost need to be ordered by specific times in the fiscal year calendar to expend fully by the end. If a fund manager focuses only on reaching a 100 percent encumbrance level, 100 percent of funds are not likely to be expended. Balancing a changing ratio of encumbrances and expenditures as the year progresses is one aspect of the art of fund management. Many libraries cut off ordering prior to the end of the fiscal year. If a fund

manager does not manage a particular allocation in sync with the fiscal year calendar, a fund manager may lose part of the allocation to the general year-end pool.

Encumbrances

The key to managing a monographic fund allocation lies in finding the appropriate encumbrance level, or placing the right number of orders at the right time. Intuition would suggest that setting an encumbrance level of 100 percent, or 110 percent, would guarantee that an allocation would be entirely spent. But one size does not fit all. A number of publication areas, (e.g., Africa, Latin America, Asia, and parts of Europe) may need special over encumbrance levels to guarantee that an allocation can be fully spent. Purchasing from an area where publication production, the local economy, and the book distribution infrastructure are weak might require an over encumbrance limit up to 150 percent, or perhaps no limit on encumbrances at all. In some cases tracking the actual expenditure level will be the most effective method of fund management. The following case studies indicate possible strategies for different publication regions.

Program Fund Case Studies

The authors selected three program areas (African Studies, English, and Latin American Studies) for comparing monograph order characteristics. Four tables show some of the aspects any selector must consider expending a yearly budget allocation. Table 1 shows fund encumbrance and payment activity by quarter and cumulating in FY2003 totals by percentage. Table 2 shows the success rate for FY2003 orders as of the end of the FY2004 first quarter. Table 3 shows success and cancellation rate by vendor for FY2003 orders as of the end of the

FY2004 first quarter. Table 4 shows the number of days from order to receipt. The following case studies are meant only to suggest analytical approaches to managing collection funds, not as a firm guide to managers in these three program areas.

{INSERT TABLES 1-4 HERE}

General Case Study Discussion

The factors contributing to fund management outcomes discussed in this article are present in most libraries, particularly academic libraries. The most important factor influencing fund expenditure levels is the experience and activity of the fund manager. Selector turn-over and position vacancy during a fiscal year may have a significant impact on fund activity, particularly if the size of the fund is significant. The number of English language titles, a vendor's geographic location or specialty, the mix of vendors, and the publication date of books ordered are all factors experienced selectors take into account. The strength of book distribution and communication networks, bibliographic control, and technology infrastructure in a publication market can determine how quickly a library can acquire material. The percentage of orders that never arrives coupled with a selector's willingness to cancel open orders periodically is an important factor in managing fund encumbrance levels. The effective selector takes all of the above factors into consideration each fiscal year.

Individual Program Fund Studies

African Studies

Expenditures nearly equaled the budget allocation for African Studies monographs, showing only 2 percent cash balance remaining at the end of the fiscal year (Table 1). The

majority of orders placed in the first two quarters of the fiscal year were received (Table 2), with receipt most likely occurring in the 61-120 day range (Table 4). Five vendors (three European, one South African, and a US approval) accounted for 70 percent of orders placed against this fund; the remaining 30 percent were supplied by 49 other sources (Table 3). Geopolitical events can disrupt book acquisitions for this program; thus, special arrangements are often made with vendors or individuals to collect materials on periodic buying trips.

English

The English fund was managed by both an interim selector and a newly hired selector during the fiscal year studied. The fund was under spent by 7 percent even though the fund was over encumbered by 21 percent at the end of the fiscal year (Table 1). Sixty-one percent of 2003 orders were placed in the third quarter (Table 2). Given the reliability of receiving a majority of items ordered from US/UK/Canadian vendors within 120 days, ordering earlier in the fiscal year is the only adjustment indicated to spend the allocation within the fiscal year (Table 4). US approval and firm orders with a major domestic vendor accounted for 86 percent of orders on this fund (Table 3); approval vendors are able to project the cost for a plan profile at the beginning of a fiscal year; the availability and use of these projections give selectors additional tools for managing their fund expenditures.

Latin American Studies

Given the complexity of the Latin American book trade, this program fund needs careful analysis. Due to a vacancy, this fund was managed on an interim basis. With only 3 percent of FY2003 orders placed in the first quarter, it is not surprising that a 40 percent cash balance existed at the end of the fiscal year (Table 1). Significant numbers of orders were placed in the

following quarters, but they could not make up for lost time in a market where few orders are placed with US vendors and only 25 percent of the orders were received within 60 days (Table 4). Although the region has made advances in distribution, many publications are produced by state-supported entities, a factor that complicates the ordering process. Five vendors supplied 49 percent of the orders; however, the other 51 percent of the orders were supplied by 46 other sources (Table 3).

Recommendations for Effective Management of Monograph Funds

1. **Order new titles consistently through the fiscal year whenever possible.** Placing orders in large batches two or three times a year interrupts a consistent flow of book receipts. Even if the books arrive in a library, receipt and payment backlogs in the acquisitions department may develop and payments may not be posted against a collection manager's fund in the allocation year. Some libraries use quarterly targets for order and expenditures levels. Last quarter ordering is crucial to maintaining a consistent flow of materials into acquisitions and cataloging, yet funds are likely to become over encumbered. To create consistent flow, over encumbrance levels may need to be increased late in the year. The danger for collection managers is that this over encumbrance may reduce buying power in the following fiscal year.
2. **Review open orders at least once each year.** The beginning of a fiscal year is a good time to review all orders placed more than one year earlier (or some specified time). A certain percentage of old open orders will never arrive. A collection manager may know something specific about a title and want to keep the order open. Although controversial from an accounting perspective, the collection manager may choose to remove an encumbrance from an order but keep the order open.

3. **Determine the appropriate over encumbrance level for specific funds and publication regions.** Analysis of the length of time from order to receipt, average price and discount mix of vendors and their performance, and mix of publication regions are ways to estimate how to spend an allocation in a particular year. Some comprehensive funds, such as those for history collections, may cover all areas of the world and present significant challenges.
4. **Watch both the encumbrance and expenditure levels throughout the fiscal year.** As the year progresses, attention should move from a focus on free or unencumbered balance to attention to expenditures and the corresponding cash balance. When a payment is made, the encumbrance for that order disappears from the encumbrance column but is reflected as an expenditure. The total of payments and remaining outstanding orders are reflected in a fund's free balance. In the last quarter of the fiscal year, the cash balance should be closely monitored as this determines whether a fund is fully expended.

{INSERT TABLE 5 HERE}

Conclusion: It's a Balancing Act

Monograph allocations live within the context of a collection manager's full array of collection funds. Managing monograph allocations is part of the total balancing act collection managers perform. With flexible fund structures, when serials funds need an infusion, part of the monograph allocation may be transferred to the serials fund. If serials funds are over-allocated in the beginning of the year, part of the allocation may need to be transferred to its

complementary monograph fund. Orders need to be placed and cancelled at appropriate times. Each individual fund is managed within the larger materials budget context where cancellation projects may be necessary to manage the library's total collection budget and the collective total of all funds must be spent during the fiscal year. It is no secret that managing individual program allocations is indeed a balancing act in a dynamic and complex business environment.

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Table 1. Indiana University Library Fund Summary FY2003, Selected Funds

Fund	Date	Budgeted	Encumbered %	Paid %	Cash Balance %	Free Balance %
African Studies	9/30/2002	100%	39%	10%	90%	51%
	12/30/2002	100%	37%	36%	64%	28%
	3/31/2003	100%	23%	58%	42%	19%
	7/7/2003	100%	19%	98%	2%	-17%
English	9/30/2002	100%	46%	25%	75%	29%
	12/30/2002	100%	32%	32%	68%	36%
	3/31/2003	100%	39%	61%	39%	0%
	7/7/2003	100%	28%	93%	7%	-21%
Latin American Studies	9/30/2002	100%	43%	3%	97%	54%
	12/30/2002	100%	56%	13%	87%	31%
	3/31/2003	100%	92%	24%	76%	-16%
	7/7/2003	100%	72%	60%	40%	-31%

Table 2. Success to Date (End of FY2004 First Quarter) of FY2003 Firm Orders for Three Funds

Fund	FY2003 Quarter	Orders Placed		Received		Cancelled	
		Number	% of Total	Number	% Ordered	Number	% Ordered
African Studies	1st	455	35%	421	93%	16	4%
	2nd	502	39%	397	79%	27	5%
	3rd	184	14%	135	73%	10	5%
	4th	161	12%	130	81%	8	5%
	Total	1,302		1,083	83%	61	5%
English	1st	147	12%	130	88%	8	5%
	2nd	147	12%	136	93%	7	5%
	3rd	757	61%	626	83%	47	6%
	4th	196	16%	153	78%	4	2%
	Total	1,247		1,045	84%	66	5%
Latin American Studies	1st	79	3%	69	87%	3	4%
	2nd	697	30%	533	76%	43	6%
	3rd	887	39%	619	70%	26	3%
	4th	635	28%	373	59%	31	5%
	Total	2,298		1,594	69%	103	4%

Table 3. Firm Orders, Placed FY2003 and Received or Cancelled by End of First Quarter FY2004, by Fund and Vendor

Fund	Vendor	Rank	Orders		Received			Cancelled		
			No.	% of Orders	No.	% of Recd	% Orders Recd	No.	% of Cancelled	% Orders Cancelled
African Studies	A	1	219	17%	199	18%	91%	9	15%	4%
	B	2	210	16%	176	16%	84%	12	20%	6%
	US Approval	3	173	13%	152	14%	88%	6	10%	3%
	D	4	172	13%	139	13%	81%	12	20%	7%
	E	5	138	11%	131	12%	95%	4	7%	3%
	Rest	6-54	390	30%	286	26%		18	30%	
	Total		1,302		1,083			61		
English	US Approval	1	723	58%	589	56%	81%	30	45%	4%
	B - US	2	352	28%	307	29%	87%	34	52%	10%
	C	3	46	4%	37	4%	80%	0	0%	0%
	D - Internet	4	18	1%	18	2%	100%	0	0%	0%
	E	5	17	1%	16	2%	94%	0	0%	0%
	Rest	6-40	91	7%	78	7%		2	3%	
	Total		1,247		1,045			66		
Latin American Studies	A	1	483	21%	383	24%	79%	33	32%	7%
	B	2	239	10%	108	7%	45%	13	13%	5%
	C	3	152	7%	143	9%	94%	1	1%	1%
	D	4	140	6%	105	7%	75%	13	13%	9%
	E	5	117	5%	94	6%	80%	2	2%	2%
	Rest	6-51	1,167	51%	761	48%		41	40%	
	Total		2,298		1,594			103		

Table 4. Number of Days between Order Date and Receipt Date for
Orders Placed in FY2003 and Received as of the End of First Quarter
FY2004

Fund	60 or Less		61-120		121-180		More than 180		Total Received
	No.	% of Recd	No.	% of Recd	No.	% of Recd	No.	% of Recd	
African Studies	229	21%	505	47%	261	24%	88	8%	1,083
English	381	36%	366	35%	178	17%	120	11%	1,045
Latin American Studies	402	25%	728	46%	291	18%	173	11%	1,594

Table 5. Accounting Report for Sample Fund

Allocation	Encumbrance	Expenditure	Cash Balance	Free Balance
\$50,000	\$20,000	\$10,000	\$40,000	\$20,000